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CALIFORNIA

Lodging

INDUSTRY

Laventhol & Horwath
Certified Public Accountants

1985 Edition

3RD ANNUAL REPORT ON CALIFORNIA HOTEL OPERATIONS

CALIFORNIA LODGING INDUSTRY

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COMMENTS FROM AROUND THE STATE

From the East Bay Area

San Francisco's East Bay area is a vast lodging market. This area includes many different lodging areas and extends north to Richmond and south to Milpitas.

In Alameda County, the Oakland area attained a 70 percent area-wide occupancy and an average daily room rate of $66 for 1984. Proposed hotel development for this area includes 775 additional guest rooms in the next two years. Another major segment of Alameda County is the Pleasanton area, which once was primarily a "second bedroom" and transient traveler market. A new demand base is now emerging due to a recent boom in commercial office space development. There are plans for 24 million square feet of commercial office space and, as a result, six new hotels are proposed for development within the next year. Strong emphasis will be placed on the suite concept, with new hotels oriented toward the commercial traveler.

The Hayward, Fremont and Union City lodging market is also likely to show growth. Area-wide occupancy for 1984 was 73 percent, and the average daily room rate was $50. This area is a commercial market but currently does not have adequate facilities to cater to this market. Increased development of mid-priced, high-quality lodging facilities targeted toward the commercial business traveler is expected in the near future.

From Los Angeles

The greater Los Angeles area lodging market experienced a slight decline in occupancy, from 73.3 percent in 1983 to 71.1 percent in 1984. This decline is attributed to the effects of the strong dollar on commercial and tourist travel, and to overbuilding in some submarkets of Los Angeles County. However, total room night demand increased by approximately 8 percent, indicating the overall strength of the Los Angeles market despite the decline in occupancy. Generally, higher occupancies were achieved than in both the Western Region and the overall national lodging market.

Hotel construction continued at a rapid pace in 1984 with 3,952 rooms added throughout the Los Angeles area. In 1985, an additional 2,794 rooms are expected to be added to the total lodging supply. New hotel development in Los Angeles reflects the national trend towards product segmentation, as limited-service and all-suite hotels are either under construction or proposed in a number of submarkets. In addition, numerous lodging facilities are proposed as components of mixed-use developments which typically include hotel, office and retail uses as part of the total project.

Los Angeles area hotels experienced mixed results from the 1984 Summer Olympics. While major hotels in downtown Los Angeles, Beverly Hills and the Westside benefited from the Summer Games, properties in a number of submarkets suffered significant declines when the expected boom in tourism did not materialize. The mixed results have been attributed to the anticipated traffic congestion, scarcity of hotel rooms and general overcrowding. Additionally, commercial travelers to Los Angeles cancelled or postponed scheduled trips during this period.

Coinciding with the 1984 Summer Olympics was the opening of the Bradley International Terminal at the Los Angeles International Airport. There was also extensive renovation to other terminals and to the surface street access. The $500-million renovation of the airport will position Los Angeles as the nation's gateway to the Orient and the Pacific Rim, in addition to alleviating serious passenger and traffic problems. The airport area

Los Angeles County
(New Properties)

Area	Property	Rooms	Year
Downey	Embassy Suites	250	1985
Hollywood	Hollywood Roosevelt	380	1985
Long Beach	Ramada Renaissance	380	1985
	Long Beach Airport Marriott	313	1986
Los Angeles	Granville	47	1985
	Mid-Town Hilton	210	1985
Los Angeles International Airport	Embassy Suites	350	1985
	Residence Inn	176	1986
	Stouffer's Concourse Hotel	750	1986
Manhattan Beach	Manhattan Beach Radisson Plaza	400	1986
Marina Del Rey	Marina Beach Hotel	300	1985
Monrovia	Holiday Inn	181	1986
Pomona	Shilo Inn	162	1985
Torrance	Marriott	497	1985
West Hollywood	Le Reve	80	1985
	Le Valadon	138	1985
Woodland Hills	Marriott	477	1986
1985 openings		2,794	
1986 openings		2,297	
Total		5,091	

lodging market has benefited directly from these major improvements. The 1984 occupancy level was approximately 75 percent, an increase of 2 points over 1983. Most of the nation's major hotel operators are represented and continue to be attracted to the LAX lodging market. The 615-room Holiday Inn-Crowne Plaza opened in 1984; properties under construction include:

- The 750-room Stouffer's Concourse.
- The 350-room Embassy Suites, scheduled to open in the summer of 1985.
- The 400-room Manhattan Beach Radisson Plaza (franchise).

The airport's office market consists of over 10 million square feet of office space with approximately 900,000 square feet constructed in 1984. An additional 800,000 square feet are expected to be built in 1985. Although somewhat overbuilt, real estate professionals anticipate strong leasing activity during the next two years.

The downtown Los Angeles lodging market achieved an annual occupancy of 65.1 percent in 1984 which is relatively strong, based on limited weekend demand. The downtown area experienced peak demand during the 1984 Summer Olympics—one of the few markets in the Southern California region that performed as projected.

Hotel development downtown includes a proposed 300-room deluxe or luxury property at California Plaza and proposed renovation of two existing properties. The quality of these properties will be upgraded while the number of rooms will be decreased.

Active commercial development continues in downtown Los Angeles. California Plaza is under construction and will consist of 3.2 million square feet of office space, an art museum, hotel and retail space. Citicorp Plaza is expected to open in late 1985 with an addition of 2.5 million square feet of office space and 350,000 square feet of retail space. A major new proposed project is the Library Square development, which will include two office towers for a total of 2.5 million square feet and the renovation and expansion of the Los Angeles Central Library.

Despite the active commercial development in the downtown area, total room demand is expected to soften in 1985. This is due to the effect of the strong dollar on international travel, the appeal and accessibility of Beverly Hills and other Westside properties to commercial travelers, and the impact of attractive, high-end first-class properties in the Los Angeles International Airport area.

Long Beach was one of the stronger growth areas in Los Angeles County in 1984. The annual area-wide occupancy for 1984 was 76.9 percent, a 5.3 percent increase over the 1983 area-wide occupancy of 73 percent. Additionally, the area-wide average daily room rate has increased by approximately 19 percent. These market conditions have spurred the development of a number of hotel projects. One renovated hotel, The Breakers, opened in 1984. The Long Beach Airport Marriott and the Ramada Renaissance are both under construction and scheduled to open in 1986, and six other major hotel projects are proposed for this lodging market.

Greater Los Angeles area hotels achieved an average daily room rate of $73.55, an increase of approximately 13 percent from 1983. An increase of 8 percent in the average room rate is projected for 1985.

From the Monterey Peninsula

The moratorium placed on lodging development continues to block the proposal of additional lodging facilities within the city of Monterey. This has caused interest in hotel development to be redirected to communities bordering Monterey, such as Seaside. However, this does not imply that the lodging market is at a standstill. Many projects that were approved before the moratorium are now under construction.

Hotel openings in 1985 will add 639 rooms to the Monterey area. The luxurious Monterey Plaza on Cannery Row will contribute 291 rooms when it opens in October 1985. Other properties scheduled for opening in 1985 are smaller, averaging approximately 50 rooms, and are primarily along Cannery Row. One example is the 47-room Monterey Bay Inn being developed by the owners of Carmel's Highlands Inn.

Interest in communities surrounding Monterey will accelerate as long as the moratorium is in effect. Economic indices show that Seaside and other outlying communities are benefiting from the strong growth experienced by Monterey. Developments in these areas, however, will bring lower average daily room rates and smaller facilities in an effort to attract groups and tourists away from Monterey.

Estimated 1984 year-end occupancy for the city of Monterey was 71 percent, down 1 percent from 1983. However, this slight drop is attributable to the opening of the 350-room Sheraton in the last quarter of 1984. Average daily room rates increased from $80 in 1983 to $84 in 1984.

From the Ontario Airport Area

The Ontario Airport area was the focal point of hotel development activity in the Inland Empire (San Bernardino and Riverside Counties) in 1984. The opening of the 111-room Quality Inn in July 1984 brought the number of available rooms in the airport area to 879, compared with 481 three years ago. Development activity will continue in 1985 and 1986, with an estimated 1,256 rooms to be added to the market by mid-1986.

The Ontario Airport lodging market experienced an approximate 68 percent area-wide occupancy level in 1984, an increase of nearly 1 percent from the 1983 level and significantly above occupancy levels in the early 1980s. More importantly, however, the growth in room night demand has exceeded the growth in the supply of hotel rooms over the past four years. While the number of hotel rooms has increased 82.5 percent from 1981 to 1984, the demand for these rooms has increased by 106.6 percent. This strong growth in demand is expected to continue in the near-term, enabling the area to absorb the large increases in supply projected in 1985 and 1986.

The average daily room rate reported for the five airport area hotels in 1984 was $46, a 10.3 percent increase from 1983. The area's average daily room rate has exhibited a growth significantly above inflation in recent years, averaging more than 11 percent growth annually during the past four years. A continued healthy growth in the area's average daily room rate is expected in 1985 and 1986, as newer, more upscale properties open in the airport area (see chart, p. 5).

Economic and demographic indicators for the Ontario Airport area have shown strong growth in recent years and are projected to remain strong in the future. The growth in population is supple-

Ontario Airport
(New Properties)

Property	Estimated Number of Rooms	Status	Projected Opening Date
Clarion Hotel	300	Under Construction	Mid-1986
Doubletree (Compri)	174	Under Construction	Mid-1986
Ontario Airport Hilton	312	Under Construction	December 1985
Lexington Hotel Suites	120	Under Construction	July 1985
Residence Inn	200	Under Construction	Mid-1986
Inn Suites	150	Under Construction	Mid-1986
Total	1,256		

mented by the growth in office and industrial space centered around the Ontario International Airport. Nearly 300,000 square feet of office space and more than one million square feet of industrial space are under construction. Major projects include the Ontario Center and the California Commerce Center, together totaling more than 2,000 acres of industrial/commercial development.

Activity at the Ontario International Airport has also shown an increase in recent years. Since 1980, the total number of passengers handled has increased from approximately 2 million to over 3 million in 1984. This growth represents an average annual growth rate higher than Los Angeles International Airport or John Wayne Airport in Orange County. In 1984, $2 million in improvements were made to the airport, including a new baggage claim area and a covered concourse to all gates. In 1985, $15 million in additional capital improvements are to be completed.

The positive business climate and increasing importance of the Ontario airport have spurred the development of a number of new hotel projects. In spite of the positive factors for growth in the area, a decline in occupancy can be expected as the 1,256 new rooms enter the airport market during 1985 and 1986.

From Palm Springs

The Palm Springs lodging market area comprises the city of Palm Springs and the desert communities of Cathedral City, Rancho Mirage, Palm Desert, Indian Wells and La Quinta. Palm Springs is still the Coachella Valley's major resort city and is the site of the regional airport. However, the desert communities are showing strong growth.

Lodging demand in the Palm Springs area varies seasonally. The peak demand period occurs between mid-December and mid-April, with average occupancy approximately 80 percent. Lodging demand is lowest during the summer months, with average occupancy in the middle 30 percent range. During the intermediate season, demand is strong on weekends and during holiday periods, and decreases on weekdays. Operators of the eight major first-class hotels and resorts in the area reported an average annual occupancy of 61 percent in both 1984 and 1983, which is an indication of the maturity of the Palm Springs market area.

The annual average daily rate for area first-class hotels in 1984 was $105, a $7 increase from 1983. These rates follow a seasonal pattern. The approximate average rates in 1984 for the peak, intermediate and summer seasons were $131, $94 and $50, respectively.

As a result of the maturity of market-area occupancies, improvements in average room rates, the growing perception of the Palm Springs area as a major destination resort and the success of the Marriott Rancho Las Palmas, there has been a high degree of interest in developing new lodging properties in this area. Several are scheduled to open in 1985, including:

- A 225-room Marquis Hotel in downtown Palm Springs, scheduled to open in late 1985.
- A 207-suite Maxim's Hotel at the Desert Fashion Plaza in downtown Palm Springs.
- A 300-room Desert Princess Hotel located in Cathedral City.

Other major projects under construction or planned include:

- A 900-room Marriott (Marriott Desert Springs Resort), currently under construction in Palm Desert.
- A 340-room Grand Hotel in Indian Wells, currently under construction.
- A proposed 500-room Stouffer Hotel at Mission Hill Country Club.
- A proposed 400-room Convention Center Hotel adjacent to the proposed Palm Springs Convention Center.
- A proposed 250-room Mirada Hotel in Rancho Mirage.

The continued development of major resort-oriented hotels should stimulate national recognition of the Palm Springs area. In addition, if built, the proposed 40,000-square-foot Palm Springs Convention Center would positively affect demand for hotel rooms in the market area.

From Sacramento

The Sacramento area has generated considerable interest for hotel developers in recent years. With an addition of almost one million square feet of office space under construction or planned for future development, strong growth in commercial demand in downtown Sacramento is anticipated. Area-wide occupancy for 1984 was approximately 67 percent, and the average daily room rate reached approximately $52. Occupancies are expected to increase in the next few years.

As a response to the strong commercial development, an increase in hotel development is anticipated. An additional 1,036 guest rooms are expected to be added to the current downtown supply within the next two years with the opening of a 500-room Hyatt Hotel as well as several smaller projects.

Market segmentation is dominated by commercial demand, with meetings and convention demand a close second. The group market is expected to increase due to the sales efforts of new hotels and an increase in commercial office space development. In the past, Sacramento has not realized its potential in the group market because of its lack of adequate lodging facilities. The third segment, tourists and others, generates the smallest amount of demand in Sacramento. Only moderate growth is expected in this segment.

From San Diego

San Diego's lodging market had an exceptionally strong first quarter in 1984. However, expectations that the 1984 Summer Olympic Games in Los Angeles would generate strong demand during the typically strong summer months were ill-founded. Summer market-wide occupancies were several points lower than

normal, as fears of overcrowded hotels caused vacationers and groups to stay away during the Olympics. The year ended well with good autumn occupancies. A comparison of the operating levels of the various San Diego County market areas is provided below.

San Diego continues its evolution from a moderately priced, limited-product hotel market to a city with a full complement of lodging facilities appealing to all market levels and segments. After nearly a decade when there had been relatively few additions to the rooms supply, several major areas have recently, or will soon, experience significant changes in their lodging markets.

The most dramatic changes in supply are in the downtown lodging market. In 1984, all three of Harbor Island's hotels were upgraded and/or repositioned in the market to high-level, first-class and deluxe levels. The 681-room Inter-Continental Hotel opened along the waterfront. It is San Diego's first deluxe convention-oriented hotel and will be needed to support the 1987 opening of the city's new 350,000-square-foot convention center. In the downtown area in 1985, a new Best Western Hotel and the 283-room rehabilitated U.S. Grant Hotel will open and the Executive Hotel will complete its upgrading renovation. A proposed 400-room Omni Hotel is scheduled to break ground before the end of 1985.

Many lodging projects are in preliminary stages of planning for the downtown area. The opening of Hahn's Horton Plaza retail center, expansion and new development of downtown attractions and the new convention center point to the potential for successful absorption of several new lodging facilities over the next decade. Changes in other market areas in the county are also contributing to San Diego's lodging market evolution.

In North County, a new golf concept at the Olympic Golf Resort in Carlsbad helped this facility open successfully in 1984. Several economy- to first-class hotels also opened successfully along the Interstate 5 corridor in 1984 and several more are under construction for 1985 openings. A number of major resort and commercial hotels are planned for the Interstate 5 and Pacific Ocean corridor from Carlsbad to San Diego. The resort market is undersupplied in San Diego County, and several new entrants could be expected to find market support. Commercial demand along that corridor is in early development stages. Timing and market orientation will be important considerations for development of commercially oriented hotels.

The La Jolla market, including the Golden Triangle, is an emerging commercial hotel market. Many projects are in early planning stages for opening later in the decade, as office and commercial space planned for the area is absorbed. Marriott's 360-room hotel in the University Towne Center area, opening in late 1985, will be the first new addition oriented to meet growing commercial demand in an historically tourist-oriented market area.

While both the Mission Bay and Mission Valley areas are strong lodging markets and hotel developers are very interested in entering those markets, limited available land and high land costs have restricted new hotel development. However, a 265-room Raddison Hotel opened in Mission Valley in 1984, and a 230-room Budget Motels of America is expected to open in mid-1985. Two first-class projects, Mission Valley's First San Diego River Improvement Project and the long-discussed Ramada Renaissance on Mission Bay, are probable future market entrants.

The South Bay area, located just north of the Mexican border, has historically consisted of economy- to mid-priced motels and motor hotels that cater primarily to the tourist bound for Mexico. Future additions to supply are expected to aim for the same quality level, with two notable exceptions:

- Chula Vista has long-range plans for development of the San Diego bayfront, including the construction of a 450-room water-oriented resort.
- The city of Imperial Beach has obtained tentative approval to develop one of the last available parcels of ocean-front property. Plans are for a resort, limited retail space, a public park and boardwalk.

The ultimate strength of the San Diego economy lies in its diversity. Its three strong economic bases, light industrial, military and tourism, aid in maintaining more stable operating levels over time, which in turn provide greater ability to plan for the future more accurately. Interest in hotel development in San Diego County is very strong. Additions to hotel rooms supply in all market areas and at all market levels will allow the San Diego market to more fully meet the exceptional growth in commercial, group meeting and tourist lodging demand expected through the end of the decade.

From San Francisco

In 1984, the downtown San Francisco lodging market achieved a 73 percent area-wide occupancy despite a large increase in the supply of rooms. In October 1984, the 1,015-room Ramada Renaissance opened with little impact on city occupancy levels.

There are several hotel developments scheduled for completion between 1986 and 1988. The 162-room, first-class Mandarin Hotel will open in early 1986 in the heart of San Francisco's financial district. The 1,500-room Marriott Marquis, adjacent to the George M. Moscone Convention Center, is also scheduled for completion in 1988. The financial district will also be the site of the 320-room Embarcadero Hotel scheduled to open in 1987. In the Union Square area, the proposed 350-room Olympic Hotel and the 530-room Nikko Hotel are scheduled to begin operation in 1987. Extensive interior and exterior renovation of the San Francisco Hilton Hotel and Tower will begin in the near future.

Predictions for 1984 indicated a large

San Diego
(1983–1984 Market Comparisons)

	Occupancy Percent		Average Daily Room Rate	
Market Area	1984	1983	1984	1983
Downtown	71.8%	67.7%	$60.03	$57.69
Bay Area	80.3	78.6	81.77	74.26
Mission Valley	78.5	78.3	50.45	47.90
La Jolla	77.5	74.4	72.85	67.51
North County	66.8	65.7	83.93	77.69
South Bay	65.8	63.3	31.06	29.56
Other	74.6	75.0	35.96	32.67
Total Market	76.3%	74.8%	$64.65	$59.97

increase in tourism demand due to special events such as the Democratic National Convention and the 1984 Olympic Games; however, these predictions were not realized. The convention and commercial segments will continue to become increasingly important to the San Francisco properties in the next few years.

In the next three or four years, a softening in the San Francisco lodging market may occur. The large number of additions to the hotel supply and the anticipated increase in office space vacancy will be major contributors to this softening. In addition, we also anticipate a trend for more competitive rates among first-class hotels.

From the San Francisco Airport Area

The San Francisco Airport market area achieved a year-end occupancy level of 78 percent in 1984, an increase of 2.3 percent from 1983 levels. The average daily room rate for the year was $64 compared with 1983's figure of $60.

The San Francisco Airport area continues to generate a wealth of interest in lodging developments. Presently, 1,852 rooms are under construction, with an additional 7,328 rooms proposed for the next three years.

There are a number of reasons why this market continues to be one of the most active in northern California:

- Strong growth is projected for San Mateo County.
- Recent increases in occupied office space and convention delegates suggest strong growth in demand from commercial and group meeting guests.
- Projected growth in office and industrial development for the county is encouraging.
- Construction of a 50,000-square-foot convention center and world-class aquarium in South San Francisco is currently being considered.

Additions to the market will include the 690-room Marriott Hotel and 400-room Westin Hotel in Millbrae, the 305-room Hotel Ibis and 360-room Embassy Suites in Anza Park and the 167-room Comfort Inn and 311-room Embassy Suites in South San Francisco. The existing Hyatt Hotel will be demolished, to be replaced by an 800-room Hyatt Regency.

Historically, the airport market area has been able to absorb new guest rooms easily. This is due primarily to the increase in commercial office space and the favorable economic climate in San Mateo County; however, with the tremendous increase in room supply, occupancy is expected to drop during the next few years.

From the Silicon Valley

The Silicon Valley lodging industry continued its strong growth in 1984. Major office and industrial park development spurred commercial growth, while an increase in available meeting space enabled the area to attract more meeting and group business. Tourist segment growth continued to be moderate.

Overall, the Silicon Valley experienced a significant increase in lodging demand in 1984. The area-wide occupancy for first-class hotels increased from 74 percent in 1983 to 79 percent in 1984. This increase in occupancy occurred despite the addition of the 233-room Residence Inn in Sunnyvale. Average rates for the area increased 18 percent to $77 by year-end.

A number of projects are currently planned for the area in the next few years, as shown in the table below. These properties should capture a great deal of commercial demand currently being turned away by area properties, which are frequently full Monday through Thursday nights.

All-suite facilities have already established a strong position in the area with the addition of the Residence Inn in Sunnyvale at the beginning of 1984. This property has performed exceptionally well and has influenced the addition of another 248 Residence Inn rooms in Sunnyvale and 122 in Mountain View. With projects such as the Embassy Suites and Doubletree Suites planned, more than 1,000 suite accommodations will be available in the area by 1988.

Other major area developments include two conference center additions, which will increase the area's ability to attract the meetings and group market:

- The Santa Clara Conference Center, now under construction, will include 100,000 square feet of exhibit space, a 630-seat multimedia forum, a ballroom and other meeting rooms. It will also be connected to the 200,000-square-foot Techmart, a trade center and showroom for high-technology equipment, and the 502-room Doubletree Hotel. The Conference Center is projected to open in July 1986.
- The San Jose Convention Center is planning an expansion that will increase its facilities to 450,000 square feet of space, 148,000 square feet of which will comprise one exhibit hall. This project should be completed in June 1988.

The outlook for the valley is strong; however, an economic downturn in the computer chip and semiconductor industry during the first half of 1985 has slowed the area's tremendous commercial growth. This downturn in the economy is the first to have an effect on the lodging industry in the Silicon Valley. The electronics industry is expected to rebound quickly since the Pentagon has increased military electronics spending, causing many companies in the valley to direct their attention to defense contracting. Overall, the lodging industry should rebound by 1986 and remain very strong in the future.

From Ventura and Santa Barbara Counties

The overall hotel occupancy level reported for the Santa Barbara, Oxnard/

Silicon Valley
(Proposed Projects)

Property	Location	Estimated Number of Rooms	Estimated Opening Date
Campbell Inn	Campbell	98	April 1985
Residence Inn	Sunnyvale	248	May 1985
Embassy Suites	Santa Clara	257	July 1985
Ramada Inn	San Jose	129	August 1985
Woodmark Hotel	Santa Clara	60	August 1985
Residence Inn	Mountain View	112	December 1985
Doubletree Hotel	Santa Clara	502	November 1985
Courtyard By Marriott	Cupertino	148	January 1987
Fairmont Hotel	San Jose	581	July 1987
Doubletree All-Suites	Cupertino	240	November 1987
Marriott	Cupertino	400	January 1988
Total		2,775	

Ventura, Westlake/Thousand Oaks and Lompoc Valley areas for 1984 was approximately 74 percent; the average daily room rate was $64. The Santa Barbara area remained the strongest with area hotel operators reporting 78 percent area-wide occupancy combined with a relatively high average daily room rate of $92. Lompoc Valley had the lowest average daily room rate of $35, with an 84 percent area-wide occupancy. The Oxnard/Ventura and Westlake/Thousand Oaks areas both had average daily room rates between $55 and $60. The Oxnard/Ventura area had a 68 percent area-wide occupancy, while the Westlake/Thousand Oaks area experienced a 78 occupancy level.

Increases in the lodging supply, ranging from bed-and-breakfast inns to full-service hotels, occurred in most areas of Ventura and Santa Barbara counties during 1984. During 1985, the 50-room Clocktower Inn opened in Ventura and the Inn of Lompoc (formerly the Redwood Inn) expanded with a 90-room addition.

Throughout the two-county region, hotel development is expected to continue at a moderate pace during the next few years. Several new properties are expected to open in 1986, as shown in the accompanying table. The coastal areas of Ventura and Santa Barbara Counties are popular vacation destinations, but development may be hindered by the California Coastal Commission's attempt to preserve the natural coastline.

Tourism in these areas will continue to generate lodging demand, especially in areas such as Santa Barbara where more than half of the demand is tourist-related. Growth in business-related demand is expected to continue, especially in the coastal (Oxnard/Ventura) and southern (Camarillo and Westlake/Thousand Oaks) portions of Ventura County, as industrial and commercial developers move north of Los Angeles to take advantage of lower development costs and an expanding population base. A number of office and industrial projects are currently under construction in the coastal and southern portions of Ventura Counties and are expected to contribute to the commercial demand in the future.

From the Wine Country

California's Wine Country consists of the Napa and Sonoma Valleys. The area is highly tourist oriented, as travelers from all over the world come to visit the many wineries and the beautiful countryside. The area's lodging facilities are quite varied and include budget-oriented motels, first-class hotels and the increasingly popular bed-and-breakfast inns.

The Napa Valley area contains the majority of wineries. Lodging properties have been very tourist-oriented in the past and have successfully attracted both price-sensitive and price-insensitive guests. Area-wide occupancy for the first-class properties in Napa Valley increased from 70 percent in 1983 to 71 percent in 1984.

Planned additions to the lodging supply include five properties with a total of 450 rooms. Except for the 209-room Embassy Suites Hotel, the other properties are smaller, luxury-type hotels, ranging from 20 to 80 rooms, with average daily room rates of $125 to $175. Many area properties are focusing on the Bay Area group meetings market.

Future growth in Napa Valley will be concentrated around the city of Napa. Due to the limited infrastructure in the wine growing regions north of the city, a moratorium has been placed on any future development in that area.

All of the Southern Sonoma Valley's major lodging properties are located in Sonoma. The area's properties cater more to the price-sensitive Wine Country visitors, with significantly lower rates than those found in Napa Valley. The area's most famous facility is the first-class, 98-room Sonoma Mission Inn, which caters to less price-sensitive travelers. The largest commercial base in the Wine Country is centered in the city of Santa Rosa, located in the Northern Sonoma Valley. This area has more rooms than the Napa and Southern Valley areas combined. Most of the properties are low or moderately priced and are geared toward price-sensitive commercial and tourist travelers.

Recent additions to supply include the 252-room Sheraton Round Barn Inn and the 47-room Vintners Inn. These properties, which both opened in 1984, provide first-class accommodations to a market area that previously had only two first-class properties with a total of 246 rooms. Area-wide occupancy for these first-class properties dropped to 63 percent with the influx of supply in 1984; the average daily room rate for 1984 was $46. Demand for first-class accommodations and the average rate achieved by these properties is expected to increase in 1985 and thereafter. Two first-class hotels, totaling 136 rooms, are expected to open by 1987.

The Santa Rosa economy lodging market should also continue to thrive. Currently, four economy lodging properties, with a total of approximately 400 rooms, are expected to open within the next two years.

Overall, moderate growth is anticipated for the Wine Country region in both the commercial and tourist segments. This growth will provide a solid demand base for planned future projects in the area.

Ventura and Santa Barbara Counties
(Properties Under Construction)

Location	Property	Estimated Number of Rooms	Opening Year
Lompoc	All Star Inn	135	1986
Lompoc	Embassy Suites	156	1986
Lompoc	Best Western Flagwaver (addition)	22	1986
Lompoc	Inn of Lompoc (addition)	90	1986
Lompoc	Mission Bell	81	1986
Lompoc	Mission Motor Inn	226	1986
Oxnard	Embassy Suites	250	1986
Port Hueneme	Country Inn	135	1986
Ventura	Sheraton Ventura	285	1986
Total		1,380	

THE CALIFORNIA LODGING INDUSTRY—1984

by William R. Evans
Research and Development Division

Introduction

This is Laventhol & Horwath's third edition of financial and operational statistics for the California lodging industry. The information provides suppliers and operators in this state with a better understanding of the trends in their sector. All data contained in this report has been derived from the participants of the 1985 publication of Laventhol & Horwath's *U.S. Lodging Industry*.

The data in this study is categorized by property size, location and occupancy rate. The information presented can be useful in comparing the operating performances of individual properties with those of establishments similar in nature. The statistics in this report are not meant to be used as standards or goals, nor are they meant to set or conform prices.

Laventhol & Horwath publishes monthly trend reports for the Long Beach, San Diego and San Francisco airport lodging sectors. Those wishing to receive copies of these monthly statistics should write to the L&H Los Angeles, San Diego or San Francisco office (see contents page for addresses).

Exhibit 1
General Profile of Typical Contributor
Based on Various Measures of Central Tendency

Criteria	Category of Typical Contributor
Age	1970–1980
Size	150–299 Rooms
Occupancy	60%–69%
Average Rate	$55.00–$69.99
Sales Volume	$2.5 million–$5.0 million
Restaurant Operation	Operated restaurant in which the sales of food and beverage sales was greater than 50% of room sales.
Other Management	Chain-affiliated. Reported income before income tax in 1984.

Bases of statistics

The figures illustrated in this report have been computed on the common basis used to analyze lodging operating results, amounts per available room and ratios to total sales. Readers who are not familiar with Laventhol & Horwath reports are advised to read "Bases and Significance of Lodging Statistics." Excerpts from this publication are included on page 25 in this report.

The primary measurement used throughout this report is the median, which represents the middle position of the operating results and does not necessarily add to the totals shown. When appropriate, calculations based on the arithmetic mean are used. An example of this can be sited in "The California Lodging Industry Dollar" (page 11) in order to express absolute results rather than the median position.

Profile of contributors

Exhibit 1 defines the general profile of the typical contributor based on various measures of central tendency. The typical participant was chain-affiliated, was built between 1970 and 1980 and had an average room rate between $55 and $69.99 in 1984.

Highlights of operating results for the state of California are presented in Exhibit 2. Based on various measures of central tendency, total revenue increased 15.3 percent compared with 1983 on a per room basis. Room occupancy, reported at 75.5 percent, decreased 3 percent with respect to last year's rate of 77.8 percent; simultaneously, room rates increased from $56.86 in 1983 to $71.83. In addition, income before income taxes decreased 4.6 percent to $3,048 on a per room basis.

Market data

Exhibit 3 illustrates the source and composition of the California lodging market. The percentage of foreigners visiting the state of California increased to 17.9 percent, a substantial increase in comparison to the 9.2 percent reported in 1983. Business travelers composed 40.4 percent of California's lodging market, while tourists represented approximately about one in every four hotel guests. Additionally, the percentage of travelers making advance reservations decreased to 66.2 percent compared to 80.1 percent last year.

The California lodging industry dollar

Chart 1 illustrates the source and distribution of the California lodging industry dollar during 1984 compared with 1983 results. As shown, the vast majority of revenue for both years was generated by guest room rentals and food sales. There was also little variation between the two years in each source category.

On the expenditure side, payroll and related expenses comprised nearly one-third of all expenditures. Departmental expenses was the next largest distribution category, comprising 12.1 percent of the total. Comparing both years, there was little deviation among the larger categories.

Exhibit 2
Highlights*

- Total revenue increased 15.3 percent on a per room basis to $18,606.
- Occupancy was reported at 75.5 percent for 1984.
- The average daily rate per occupied room was $71.83.
- Payroll and related expenses per room were $9,240.
- Income before income taxes was $3,048 per room.

*Based on medians.

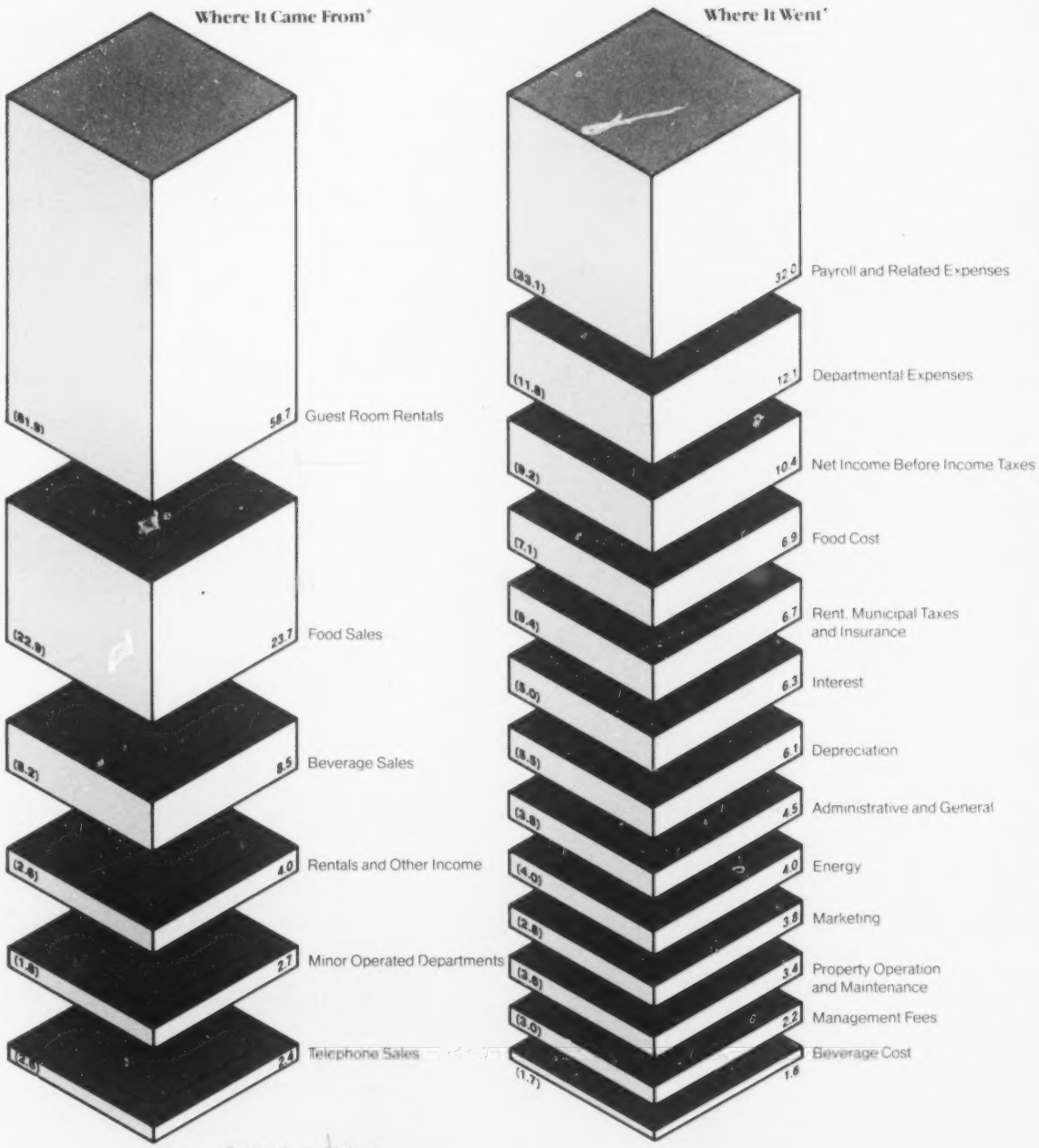
Exhibit 3
Market Data—1984*

	California	U.S.
Source of Business		
Domestic	82.1%	91.0%
Foreign	17.9	9.0
Total	100.0%	100.0%
Percentage of Repeat Business	40.3%	43.4%
Composition of Market		
Government Officials	6.2%	6.8%
Business Travellers	40.4	40.0
Tourists	24.0	24.7
Conference Participants	20.8	19.2
Other	8.6	9.3
Total	100.0%	100.0%
Percentage of Advance Reservations	66.2%	66.3%
Composition of Advance Reservations		
Direct	43.4%	41.5%
Reservation Systems	20.6	28.9
Travel Agents & Tour Operators	27.7	17.0
Other	8.3	12.6
Total	100.0%	100.0%

*Based on those supplying detail. All figures are means.

Chart 1

The California Lodging Industry Dollar 1984


Where It Came From*
(61.9) 58.7 Guest Room Rentals
(22.9) 23.7 Food Sales
(9.2) 8.5 Beverage Sales
(2.6) 4.0 Rentals and Other Income
(1.8) 2.7 Minor Operated Departments
(2.6) 2.4 Telephone Sales
Where It Went*
(33.1) 32.0 Payroll and Related Expenses
(11.8) 12.1 Departmental Expenses
(9.2) 10.4 Net Income Before Income Taxes
(7.1) 6.9 Food Cost
(6.4) 6.7 Rent, Municipal Taxes and Insurance
(5.0) 6.3 Interest
(5.5) 6.1 Depreciation
(3.8) 4.5 Administrative and General
(4.0) 4.0 Energy
(2.8) 3.8 Marketing
(3.6) 3.4 Property Operation and Maintenance
(2.0) 2.2 Management Fees
(1.7) 1.6 Beverage Cost

*Based on the weighted mean
1983 amounts in parentheses

Occupancy and average rate

Presented in Exhibit 4 are lower quartiles, medians and upper quartiles for occupancy levels and room rates in California. These figures are also presented for the entire United States for comparative purposes. As shown, occupancy and double occupancy figures were slightly lower in California than in the U.S., while average room rate and average room rate per guest were significantly higher in California. The median amount per lodging guest paid $52.04 in California compared to $43.29 for the U.S. as a whole.

The productivity index, also illustrated in Exhibit 4, measures total sales per dollar of payroll and related expenses. For the California properties surveyed, the median productivity index stood at $2.91 during 1984, about 3.6 percent below the U.S. figure.

Exhibit 5 illustrates occupancy and double occupancy percentages along with the average room rate for the state of California based on selected criteria. Properties over 300 rooms in size reported vastly higher room rates than smaller properties. These same properties (over 300 rooms) also indicated lower occupancy levels than their smaller counterparts. Based on location breakdowns, occupancy percentages ranged from 62.8 percent for establishments located in center cities to 85.1 percent for resort properties.

Exhibit 4
Occupancy and Average Rate

	California			U.S.		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Average Room Rate	$52.38	$71.83	$88.23	$46.79	$56.86	$73.31
Average Room Rate (Per Guest)	$45.90	$52.04	$63.71	$22.55	$43.29	$49.47
Occupancy	67.3%	75.5%	80.2%	69.1%	77.8%	84.0%
Double Occupancy	34.7%	55.3%	76.9%	35.2%	56.8%	97.6%
Productivity Index	$ 2.57	$ 2.91	$ 4.00	$ 2.78	$ 3.02	$ 3.44

Exhibit 5
Occupancy—By Selected Criteria*

	Percentage of Occupancy	Percentage of Double Occupancy	Average Room Rate
Size			
Under 150 Rooms	75.2%	64.6%	$51.63
150–299 Rooms	77.4	52.3	63.38
Over 300 Rooms	70.2%	55.3%	$79.62
Location			
Center City	62.8%	45.3%	$97.69
Airport	71.1	39.2	58.97
Suburban	80.0	25.5	58.57
Highway	75.2	**	45.92
Resort	80.5%	71.6%	$88.38

*All figures are medians.
**Insufficient response.

Exhibit 6
Rooms Department Income and Expenses
Median Amounts Per Room and Ratios to Sales*

	All Establishments	Size		
		Under 150 Rooms	150-299 Rooms	Over 300 Rooms
Revenue				
Room Sales	$18,606	$14,346	$18,372	$20,319
Allowances	110	88	128	115
Net Revenue	$18,312	$13,445	$18,209	$20,459
Departmental Expenses				
Payroll & Related Expenses	$ 3,036	$ 2,116	$ 2,422	$ 3,736
Commissions	252	81	236	422
Contract Cleaning	43	**	17	42
Linen	104	68	129	104
Laundry & Dry Cleaning	336	69	82	433
Operating Supplies	311	237	310	344
Other Operating Expenses	125	115	152	100
Reservation Expense	186	200	200	159
Uniforms	37	52	56	33
Total Expense	$ 4,808	$ 3,057	$ 3,625	$ 5,627
Net Departmental Income	$13,688	$10,177	$13,695	$14,724
Ratio to Total Sales				
Net Revenue	63.5%	75.1%	70.1%	59.9%
Payroll & Related Expenses	10.3	11.7	9.8	10.5
Net Departmental Income	48.9%	56.2%	53.8%	43.4%

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Rooms department

Rooms department revenues and expenses expressed as median amounts per room and ratio to total sales are displayed in Exhibit 6. The median net revenue per room for California properties was $18,312 during 1984, a 13.5 percent rise over the 1983 amount. Based on hotel size, properties with 150 to 299 rooms reported the largest percentage increase in net revenue with 18.5 percent compared with the previous year. Median net revenue per room climbed from $16,141 in 1983 to $18,312 in 1984, a 13.5 percent increase.

In comparison with last year's statistics, rooms department expenses during 1984 showed little deviation from 1983. The majority of these costs are attributed to payroll and related expenses. These figures are detailed in Exhibit 7.

Exhibit 8 analyzes the composition of sales on selected criteria, based on arithmetic mean, in order to establish absolute values. Conforming with past years, rooms department comprised the lion's share of total sales, accounting for 66.7 percent. Food sales were 18.4 percent of the total, followed by beverage sales with 7 percent. Larger properties indicated a significantly larger proportion of their sales attributable to food and beverage sales than smaller establishments.

Exhibit 7
Rooms Department Income and Expenses Ratios to Room Sales*

	Ratios to Room Sales		
	Lower Quartile	Median	Upper Quartile
Revenue			
Room Sales	100.0%	100.4%	100.9%
Allowances	0.4	0.7	1.1
Net Revenue	100.0%	100.0%	100.0%
Departmental Expenses			
Payroll & Related Expenses	14.5%	16.7%	19.6%
Commissions	0.8	1.5	2.2
Contract Cleaning	0.1	0.2	0.4
Linen	0.3	0.6	0.9
Laundry & Dry Cleaning	0.5	1.7	2.2
Operating Supplies	1.2	1.8	2.6
Other Operating Expenses	0.3	0.8	1.5
Reservation Expense	0.6	1.1	1.5
Uniforms	0.1	0.2	0.3
Total Expense	21.0%	25.4%	28.5%
Net Departmental Income	71.5%	74.4%	78.4%

*All figures are medians and do not necessarily add to totals shown.

Exhibit 8
Composition of Sales*

		Size			Location				
	All Establishments	Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms	66.7%	72.4%	70.7%	59.4%	70.3%	81.6%	65.1%	78.9%	57.7%
Food	18.4	10.6	16.1	25.8	13.6	10.7	23.0	9.5	22.3
Beverage	7.0	4.8	7.0	8.5	6.2	2.9	8.2	2.6	7.9
Telephone	2.5	2.3	2.7	2.6	3.4	3.0	2.5	3.0	1.5
Minor Operated Departments	1.1	0.7	0.4	1.9	1.0	1.0	0.4	1.1	2.0
Rentals & Other Income	4.3	9.2	3.1	1.8	5.5	0.8	0.8	4.9	8.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on arithmetic mean.

Exhibit 9
Restaurant Operations—By Selected Criteria*

	Median Ratios to Total Food and Beverage Sales	
	1984	1983
Sales		
Food	73.2%	74.8%
Beverage	26.8	25.2
Total	100.0%	100.0%
Cost of Sales		
Cost of Food Sold	32.4%	31.8%
Cost of Beverages Sold	20.9	20.3
Total Cost of Sales	29.4	27.8
Gross Profit	71.0	72.2
Other Income	4.7	5.1
Total	75.4%	75.0%
Departmental Expenses		
Payroll & Related Expenses	49.0%	46.6%
China, Glassware, Silver & Linen	2.1	1.6
Contract Cleaning	0.5	0.1
Kitchen Fuel	0.3	0.3
Laundry & Dry Cleaning	1.3	1.2
Licenses	0.1	0.1
Music & Entertainment	2.3	2.1
Operating Supplies	2.6	2.6
Other Operating Expenses	1.3	1.1
Uniforms	0.7	0.4
All Other Expenses	1.4	1.6
Total	60.3%	57.9%
Departmental Income	20.6%	14.8%

*All figures are medians and do not necessarily add to totals shown.

Restaurant operations

A detailed analysis of food and beverage operating statistics is presented in Exhibits 9 and 10. A two-year comparison of the respective ratios to food and beverage sales for selected groups is displayed in Exhibit 9; statistics of sales per room and per seat, average receipt per guest and other measurements are presented in Exhibit 10.

As illustrated in Exhibit 9, departmental income, expressed as a median to total food and beverage sales, rose dramatically from 14.8 percent in 1983 to 20.6 percent in 1984. Although this figure falls below the 25 percent of total sales typically used as a benchmark to determine if the department is earning enough to cover its share of overhead costs of operating the property, the sharp rise from 1983 is a welcomed improvement.

An in-depth look at the significant performance measures relating to the food and beverage department is presented in Exhibit 10. Food sales as amounts per available room are shown by different sources. Dining room sales accounted for 48.8 percent of sales as a ratio of total food sales, or $2,864 per available room. On the basis of amount per seat, dining room sales generated the most income amounting to $5,338 followed by bar and lounge sales indicating $3,808 per seat.

Exhibit 10
Food and Beverage Statistics—By Selected Criteria*

	All Establishments	Size		
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms
Food Sales—By Facility				
Amount Per Available Room				
Dining Room	$2,864	$3,023	$2,593	$3,193
Room Service	555	**	504	641
Banquet	2,884	819	1,122	3,345
Bar/Lounge	215	**	183	661
Total	$6,759	$4,578	$4,875	$8,705
Ratio to Total Food Sales				
Dining Room	48.8%	81.6%	66.3%	46.1%
Room Service	7.6	**	4.8	7.6
Banquet	44.2	13.0	33.7	45.1
Bar/Lounge	4.6%	**	2.0%	10.4%
Amount Per Seat				
Dining Room	$5,338	**	**	$4,644
Banquet	1,374	**	**	1,374
Bar/Lounge	3,808	**	**	6,965
Total	$4,003	**	**	$4,740
Average Check				
Dining Room	$ 8.15	**	**	$ 8.37
Room Service	8.35	**	**	9.95
Banquet	$ 122	**	**	$ 122
Total	$ 9.37	$ 6.05	$ 7.60	$10.89
Covers Served Per Seat				
Dining Room	$ 712	**	**	$ 547
Banquet	$ 122	**	**	$ 122
Room Service Sales				
Per Occupied Room				
Food	$ 2.40	**	$ 1.75	$ 2.55
Beverage	0.51	**	0.32	0.79
Total	$ 2.64	**	$ 2.07	$ 3.03
Per Guest				
Food	$ 1.52	**	**	$ 1.57
Beverage	0.54	**	**	0.58
Total	$ 1.77	**	**	$ 1.83

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

(Continued on next page)

Exhibit 10
(Continued)*

	All Establishments	Size		
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms
Beverage Sales—By Facility				
Amount Per Available Room				
Dining Room	$ 787	$1,475	$ 897	$ 713
Room Service	149	**	94	186
Banquet	645	150	264	714
Bar/Lounge	1,357	**	1,194	1,351
Total	$2,445	$2,668	$2,569	$2,425
Ratio to Beverage Sales				
Dining Room	41.5%	88.7%	92.0%	30.4%
Room Service	6.4	**	1.7	7.0
Banquet	26.0	7.2	13.0	30.2
Bar/Lounge	49.9%	**	49.4%	49.1%
Ratio to Food Sales				
Dining Room	29.7%	54.7%	32.5%	25.9%
Room Service	27.2	**	16.6	28.9
Banquet	21.0	20.1	20.3	21.8
Total (Including Bar/Lounge)	36.6%	42.9%	39.6%	32.5%
Amount Per Seat				
Dining Room	$1,070	**	**	$1,017
Banquet	1,989	**	**	1,989
Bar/Lounge	265	**	**	265
Total	$5,818	**	**	$3,165

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Minor operated departments

Exhibit 11 illustrates information for minor operated departments in California properties. As shown, the only department to generate a substantial amount of income on a per room basis was the rental and other income department, earning $342 per room. All other departments in this exhibit reported much lower levels of income.

Exhibit 11
Minor Operated Departments and Other Income
Median Amounts Per Room and Ratios to Sales*

	All Establishments	Size: Under 150 Rooms	Size: 150–299 Rooms	Size: Over 300 Rooms
Telephone				
Sales	$703	$483	$644	$793
Cost of Sales				
Cost of Calls	443	342	410	469
Equipment Rental	38	14	27	65
Total	518	349	505	586
Payroll & Related Expenses	248	292	236	256
All Other Expenses	27	235	9	28
Total Costs & Expenses	$670	$386	$561	$901
Net Departmental Income or (Loss)	$ 24	$ 29	$ 51	$ (1)
Ratio to Total Sales				
Sales	2.6%	2.4%	2.8%	2.8%
Cost of Sales	1.8	2.1	1.8	1.7
Payroll & Related Expenses	0.8%	0.5%	0.8%	0.8%
Minor Operated Departments				
Sales	$233	$ 12	$250	$266
Cost of Sales	85	**	143	68
Payroll & Related Expenses	258	**	**	258
Other Expenses	22	**	17	39
Total Costs & Expenses	242	**	227	266
Net Departmental Income	$ 48	$ 2	$ 45	$ 74
Ratio to Total Sales				
Sales	0.7%	0.8%	0.5%	0.8%
Cost of Sales	0.3	0.8	0.4	0.2
Payroll & Related Expenses	0.8%	2.8%	**	0.8%
Rentals & Other Income				
Space Rentals	$198	$122	$191	$270
Concessions	88	72	87	115
Commissions	18	7	10	37
Other	111	64	80	165
Total Rentals & Other Income	$342	$174	$319	$469
Ratio to Total Sales	1.2%	1.2%	1.4%	1.2%

*Based on those supplying detail. All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 12
Staffing Levels and Employee Productivity—All Establishments*

	Number of Employees Per 100 Available Rooms			Number of Employees Per 100 Occupied Rooms		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Staffing Levels (Full-Time Equivalent Employees)						
Rooms	14.5	20.5	30.9	19.0	27.9	46.3
Food & Beverage	19.7	33.2	47.2	26.5	45.8	68.9
Telephone	0.9	1.4	2.1	1.3	2.0	2.9
Minor Operated Departments	0.9	2.5	4.3	1.2	4.0	6.1
Administrative & General	2.9	4.3	6.4	4.0	6.1	8.8
Marketing—Sales	1.2	1.5	2.4	1.7	2.1	3.4
Marketing—Other	0.2	0.2	1.7	0.2	0.4	2.1
Property Operation & Maintenance	2.0	2.6	4.6	2.9	3.7	6.3
Personnel	0.3	0.4	1.3	0.4	0.7	2.0
House Laundry	1.0	1.9	3.3	1.3	2.6	4.4
Other	0.4	1.7	3.1	0.5	2.5	3.9
Total Employment—Full-Time Equivalent Employees	38.2	64.4	83.1	55.2	86.2	132.5
Employee Productivity—Sales Per Full-Time Employee						
Rooms	$62,325	$100,490	$121,509			
Food & Beverage	30,657	40,749	52,918			
Telephone	40,641	70,451	97,242			
Minor Departments	7,623	22,900	51,541			
Total Sales Per Employee*	$42,224	$50,124	$61,966			

*Based on those supplying detail. All figures are medians or quartiles and do not necessarily add to totals shown.

Staffing levels and employee productivity

An analysis of staffing levels and employee productivity per 100 available rooms and per 100 occupied rooms, as well as sales per employee, are presented in Exhibit 12. The information is presented by the lower quartile, median and upper quartile for clarification purposes. Food and beverage operations indicated more employees than all other departments.

Payroll and related expenses

Departmental payroll and related expenses as a ratio to total sales are analyzed in Exhibit 13. Food and beverage payroll and rooms department payroll comprise the vast majority of the total payroll figure. This is not surprising since the majority of employees are in these departments.

Displayed in Exhibit 14 are departmental payroll and other expenses per occupied room per day for the entire sample and by occupancy levels. As shown, hotels with lower occupancy rates tended to have higher costs per occupied room per day than those properties with higher occupancy levels.

Exhibit 13
Payroll and Related Expenses—Cost Per Available Room*

	All Establishments	Size		
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms
Rooms	$3,030	$2,116	$2,422	$ 3,674
Food & Beverage	4,064	3,645	2,670	4,727
Telephone	248	292	236	256
Minor Operated Departments	230	**	335	230
Administrative & General	1,204	911	1,077	1,534
Marketing	550	438	423	582
Property Operation & Maintenance	680	418	431	1,220
House Laundry	313	176	255	501
Total Cost Per Available Room	$9,240	$5,577	$7,116	$12,517

*All figures are medians or quartiles and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 14
Payroll and Related Expenses—Cost Per Occupied Room Per Day*

	All Establishments	Occupancy			
		Under 60%	60–69%	70–79%	80% & Over
Rooms	$11.77	**	$13.77	$10.59	$13.50
Food & Beverage	15.08	**	16.72	13.76	18.12
Telephone	1.00	**	1.08	0.85	0.99
Minor Operated Departments	0.79	**	1.75	0.55	0.89
Administrative & General	4.73	**	5.97	4.14	4.08
Marketing	2.14	**	2.39	1.83	2.01
Property Operation & Maintenance	2.97	**	5.34	1.51	3.40
House Laundry	1.12	**	2.12	1.08	0.79
Total Cost Per Occupied Room Per Day	$37.76	**	$44.11	$29.59	$39.13

*All figures are medians or quartiles and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 15
Analysis of Undistributed Operating Expenses—By Selected Criteria*

	All Establishments	Size		
		Under 150 Rooms	150-299	300 Rooms and Over
Administrative & General				
Cost Per Room				
Payroll & Related Expenses	$1,209	$ 911	$ 986	$1,540
Other	1,152	651	1,193	1,353
Total	$2,266	$1,384	$2,022	$2,901
Ratio to Room Sales	13.0%	11.2%	12.1%	14.9%
Ratio to Total Sales	8.8%	9.0%	8.5%	9.1%
Marketing				
Cost Per Room				
Payroll & Related Expenses	$ 497	$ 507	$ 421	$ 558
Other	1,058	666	942	1,331
Total	$1,451	$ 735	$1,143	$1,894
Ratio to Room Sales	7.8%	6.0%	7.4%	9.2%
Ratio to Total Sales	5.1%	5.1%	4.9%	5.6%
Energy Costs				
Cost Per Room	$1,109	$ 804	$1,105	$1,353
Ratio to Room Sales	6.1%	5.5%	5.8%	6.8%
Ratio to Total Sales	4.4%	4.2%	4.4%	4.3%
Property Operation & Maintenance				
Cost Per Room				
Payroll	$ 714	$ 418	$ 431	$1,196
Other	757	578	641	1,043
Total	$1,446	$ 864	$ 925	$1,994
Ratio to Room Sales	8.5%	6.6%	6.3%	10.7%
Ratio to Total Sales	5.9%	6.1%	4.2%	6.7%

*All figures are medians.

Exhibit 16
Energy Expenses—Amounts Per Available Room and Costs Per Occupied Room Per Day*

	Amounts Per Available Room			Cost Per Occupied Room Per Day		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Electricity	$536	$ 710	$1,035	$1.93	$2.71	$3.76
Fuel	178	303	385	0.68	1.05	1.42
Steam	**	**	**	**	**	**
Water	65	100	141	0.24	0.37	0.52
Total Energy Expenses	$845	$1,109	$1,512	$2.98	$4.30	$6.07
Total United States	$908	$1,149	$1,495	$3.66	$4.85	$6.58

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
**Insufficient response.

Undistributed operating expenses

Undistributed operating expenses displayed by amounts per room, ratio to room sales and ratio to total sales are analyzed in Exhibit 15. As illustrated, the total cost per room for all departments in the exhibit increases as the size of property increases. Administrative and general expenses were the highest on a per room basis than the other departments examined.

Median total energy expenses for reporting California properties totaled $1,109 per available room, resulting in a 15.4 percent increase from the 1983 cost of $961. Based on cost per occupied room, total energy expenses amounted to $4.30 per day, a 28 percent increase over last year. This information is presented in detail in Exhibit 16.

Fixed charges

Exhibit 17 displays fixed charges per available room and ratios to total sales for the properties surveyed. This exhibit also shows the varying levels of fixed charges by selected industry segments. Median total fixed expenses for all properties during 1984 was $4,463 per room.

Balance sheet ratios

Displayed in Exhibit 18 are liquidity ratios and other frequently used balance sheet ratios for 1984 and 1983. The current position, defined as current assets divided by current liabilities, increased dramatically during 1984.

Summary

A summary of all departmental expenses is displayed in Exhibit 19 and 20 as amounts per available room and as ratios to total sales. Included are management fees, significant categories in the rooms and food and beverage departments and administrative and general expenses.

Exhibit 17
Fixed Charges—Median Amounts Per Room and Ratio to Total Sales—By Selected Criteria*

		Size			Location				
	All Establishments	Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Amount Per Room									
Rent	$ 761	$ 761	$ 146	$1,551	$ 761	$ 191	$ 218	$ **	$ 1,551
Property Taxes	436	277	360	641	622	463	403	308	513
Insurance on Buildings & Contents	91	201	92	61	287	42	75	**	207
Interest Expense	1,562	661	1,810	4,145	4,159	657	1,124	412	2,603
Depreciation & Amortization	1,782	1,334	1,356	2,692	2,692	2,967	1,850	2,192	1,771
Total Fixed Charges	$4,463	$3,585	$3,541	$7,378	$10,263	$2,490	$3,803	$2,707	$12,343
Ratio to Total Sales	19.5%	20.2%	17.8%	21.9%	24.1%	19.2%	17.5%	**	18.6%

*Based on those supplying detail. All figures are medians.
**Insufficient response.

Exhibit 18
Balance Sheet Ratios—1984 Compared With 1983*

	1984	1983
Current Position	$2.57	$1.28
Accounts Receivable		
Amount Per Room	$1,795	$1,545
Ratio to Total Sales	4.9%	6.1%
Number of Times Average Rate	130	**
Food Inventory		
Amount Per Room	$ 99	$ 108
Annual Turnover	30	29
Beverage Inventory		
Amount Per Room	$ 111	$ 81
Annual Turnover	5	5

*All figures are medians. Accounts receivable and inventory figures are for end of year.
**Insufficient response.

Exhibit 19

Summary Statement of Income and Expenses Amounts Per Available Room*

	All Establishments	Size			Location				
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms									
Net Revenue	$18,312	$13,445	$18,209	$20,459	$23,249	$12,397	$17,461	$12,644	$19,231
Departmental Expenses									
Payroll & Related Expenses	3,036	2,116	2,422	3,736	4,530	1,645	3,113	1,680	3,590
Other	1,322	858	1,152	1,790	2,390	867	1,463	552	1,821
Total	4,808	3,057	3,625	5,627	6,206	2,503	4,808	2,135	5,333
Departmental Income	13,688	10,177	13,695	14,724	15,406	10,136	12,481	10,509	21,587
Food & Beverage Sales									
Food	6,648	4,428	4,875	8,705	8,630	7,248	5,489	**	8,238
Beverage	2,435	2,445	2,569	2,425	2,425	2,581	2,261	**	3,222
Total	8,877	6,377	7,407	11,094	12,041	9,162	7,407	**	10,546
Cost of Sales									
Food	2,074	2,083	1,512	2,775	2,872	2,252	1,995	**	4,253
Beverage	550	941	564	535	552	478	462	**	967
Total	2,613	3,076	1,784	3,310	3,905	2,730	2,382	**	4,848
Gross Profit	6,204	4,538	5,083	7,718	8,135	6,432	5,817	**	7,718
Public Room Sales	276	285	260	325	[illegible]	458	260	**	295
Other Income	102	3	75	104	166	289	57	**	**
Gross Profit & Other Income	6,850	4,608	5,317	8,234	8,441	7,443	6,316	**	8,262
Departmental Expenses									
Payroll & Related Expenses	4,060	3,645	2,700	4,496	5,793	3,939	3,958	**	4,938
Other	1,088	1,622	857	1,174	1,075	1,094	801	**	3,056
Total	5,199	4,649	3,577	5,504	6,868	5,033	4,645	**	6,260
Departmental Income	1,505	355	1,433	1,680	(297)	2,410	1,680	**	6,645
Minor Operated Departments & Other Income (Net)	48	2	45	74	70	100	24	**	385
Telephone Departmental Income	24	29	51	(1)	(1)	33	9	20	158
Rentals & Other Income	342	174	319	203	526	104	174	321	647
Gross Income	14,855	11,814	13,841	16,896	16,552	10,202	12,837	11,863	23,972
Undistributed Operating Expenses									
Administrative & General Expenses									
Payroll & Related Expenses	1,209	911	986	1,540	1,909	781	1,200	590	1,726
Other	1,152	651	1,193	1,352	1,829	788	923	756	1,218
Total	2,266	1,384	2,022	2,901	3,517	1,788	2,278	1,346	2,804
Marketing	1,450	507	1,143	1,894	2,285	964	1,213	659	2,087
Energy Costs	1,109	804	1,015	1,353	1,195	746	1,027	725	1,427
Property Operation & Maintenance	1,446	864	925	1,994	1,843	832	1,446	852	2,267
Total Undistributed Expenses	6,101	4,446	5,093	8,383	8,694	4,304	5,565	3,393	9,102
Income Before Management Fees	8,073	5,932	8,521	8,202	7,097	8,343	8,202	8,470	8,699
Management Fees	955	657	1,165	1,007	1,139	630	1,204	906	1,518
Income Before Fixed Charge	7,390	5,622	8,408	7,481	6,210	8,343	7,481	7,564	8,699
Total Fixed Charges	4,463	3,585	3,541	7,378	10,263	2,490	3,803	2,707	12,343
Income Before Income Tax	$ 3,048	$ 2,449	$ 4,600	$ 904	$ 1,116	$ 3,978	$ 3,198	$ 4,384	$ 2,485

*All amounts are medians and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 20
Summary Statement of Income and Expenses Ratios to Total Sales*

	All Establishments	Size			Location				
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms									
Net Revenue	63.5%	75.1%	70.1%	59.9%	62.1%	94.8%	64.8%	82.6%	61.9%
Departmental Expenses									
Payroll & Related Expenses	10.3	11.7	9.8	10.5	13.1	9.4	12.6	11.6	7.8
Other	5.0	4.3	4.8	5.2	5.8	4.0	5.3	4.3	3.1
Total	15.9	16.6	14.6	16.0	18.9	13.3	18.2	14.4	11.1
Departmental Income	48.9	56.2	53.8	43.4	47.0	72.4	47.3	68.2	52.9
Food & Beverage Sales									
Food	73.2	70.0	71.6	75.5	68.6	78.7	75.5	**	74.0
Beverage	26.8	30.0	28.4	24.5	31.4	21.3	24.5	**	26.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**	100.0%
Cost of Sales									
Food	32.4	38.7	32.9	31.8	33.4	30.3	31.1	**	32.5
Beverage	20.9	26.6	21.9	20.0	21.5	20.8	21.3	**	21.7
Total	29.4	32.9	29.6	27.9	29.9	28.3	29.8	**	29.6
Gross Profit	22.9	21.5	22.3	23.2	19.5	24.9	23.0	**	25.8
Public Room Sales	0.3	1.2	1.1	1.0	0.8	1.6	1.2	**	0.9
Other Income	1.4	0.1	0.3	0.4	0.5	1.1	0.2	**	**
Gross Profit & Other Income	24.0	21.5	22.8	24.7	21.9	28.3	24.9	**	25.8
Departmental Expenses									
Payroll & Related Expenses	14.3	14.1	12.0	15.7	16.5	15.5	14.6	**	12.2
Other	3.6	3.5	2.9	3.6	3.2	3.9	3.5	**	8.6
Total	17.6	16.6	15.3	19.2	19.4	19.4	18.1	**	15.9
Departmental Income	7.1	15.8	7.0	5.9	(0.6)	8.9	7.0	**	22.2
Minor Operated Departments & Other Income (Net)	0.2	0.8	0.2	0.2	0.2	0.8	0.1	**	1.0
Telephone Departmental Income	0.1	0.1	0.2	0	(0.1)	0.2	0.1	0.2	0.3
Rentals & Other Income	1.2	1.2	1.4	1.2	1.1	0.6	0.6	0.8	2.2
Gross Income	57.1	66.8	61.7	49.5	53.7	74.5	53.4	81.4	58.5
Undistributed Operating Expenses									
Administrative & General Expenses									
Payroll & Related Expenses	4.5	4.6	3.9	4.8	4.8	4.8	3.6	4.1	4.8
Other	4.0	4.1	4.4	3.7	5.0	4.1	3.5	3.6	4.8
Total	8.8	9.0	8.5	9.1	9.9	8.9	7.1	7.5	7.9
Marketing	5.1	5.1	4.9	5.6	6.6	5.1	4.6	4.9	4.4
Energy Costs	4.4	4.2	4.4	4.3	3.2	4.2	4.4	5.0	4.6
Property Operation & Maintenance	5.9	6.1	4.2	6.7	6.1	5.3	4.7	6.1	5.6
Total Undistributed Expenses	23.4	22.8	21.7	25.2	25.7	23.4	21.0	21.7	19.8
Income Before Management Fees	32.2	32.6	38.0	26.1	26.6	45.6	32.5	58.4	16.8
Management Fees	3.3	4.2	3.4	3.0	3.5	3.5	3.0	5.1	3.4
Income Before Fixed Charge	29.4	32.6	36.4	19.5	21.8	41.6	29.5	52.2	16.8
Total Fixed Charges	19.5	20.2	17.8	21.9	24.1	19.2	17.5	20.9	18.6
Income Before Income Tax	11.1%	1.2%	18.2%	2.8%	3.3%	16.3%	12.1%	33.8%	9.7%

*All amounts are medians and do not necessarily add to totals shown. All ratios are based on total sales except those of the rooms and food and beverage departments. Cost of sales is shown as a percentage of the corresponding sales. Food and beverage departmental expense ratios are based on the combined food and beverage sales.
**Insufficient response.

BASES AND SIGNIFICANCE OF LODGING STATISTICS

Number of Rooms

The number of rooms used in several computations is the total number of rooms available for guest rental during the year. All rooms used for management, employees and storerooms are not included in these totals.

Room Occupancy

The percentage of room occupancy is computed by dividing the total number of rooms occupied by the total number of rooms available for occupancy throughout the year. Seasonal fluctuations are thus removed, allowing properties in various locations to be compared for the same period. Seasonal variations can be seen when analyzed on a monthly basis, such as in the *National Trend of Business in the Lodging Industry.*

Average Room Rate

The average room rate is computed by dividing rooms revenue, net of all allowances, by the total number of rooms occupied. Affecting this rate is the percentage of double occupancy associated with each property. Double occupancy is the percentage of rented rooms occupied by two or more persons. As the double occupancy increases, the room rate also should rise, since lodging facilities customarily charge a fee for each additional person occupying the guest room.

Comparison of Operating Results

Due to the current uncertainties surrounding financing methods, operators of lodging establishments may lease all or part of their assets. Because of high construction and interest costs, many operators have turned to creative financing techniques. Fixed costs may differ significantly for operators who lease their assets compared with those who own theirs. It is difficult to compare those operations with high depreciation and interest charges with those that are not required to pay any of those fees. To alleviate any possible difficulties in comparison, it is recommended that the reader analyze results before fixed charges are deducted.

Means, Medians and Quartiles

Most of the figures in this lodging survey are given as medians and quartiles rather than means. The median and upper and lower quartiles are calculated by first arraying all the numbers in the order of the lowest to the highest figure. The number that falls in the middle of the list is the median. The figure halfway between the lowest number and the median is the lower quartile, while the figure halfway between the median and the highest number is the upper quartile. To arrive at an arithmetic mean, divide the sum of the values by the number of items used. Table 1 illustrates the difference between the two.

The inclusion of a unit with high sales per occupied room may bring about a mean that is not as representative of the group as the median.

Productivity Index

The productivity index measures employee productivity in terms of the total revenue received for each dollar spent on payroll expenses. It is computed by dividing total revenue by total payroll and related expenses.

Inventory Turnover

Gross cost before deducting employees' meals divided by the average of the opening and ending inventories.

Table 1

	Room Sales	Occupied Rooms	Room Sales Per Occupied Room
Hotel A	$ 800,000	42,600	$ 18.78
Hotel B	1,200,000	56,550	21.22
Hotel C	1,450,000	58,750	24.68
Hotel D	1,875,000	61,725	30.38
Hotel E	2,225,000	66,500	33.46
Total	$7,550,000	286,125	$128.52
Median			$ 24.68
Mean	($128.52/5)		$ 25.70

EXPLANATION OF TERMS

Room Sales

Guest room revenue from accommodations on a part-day, full-day or longer period basis, net of any rebates and discounts.

Rentals and Other Income

Rental income from stores, offices, clubs and other spaces not classified as concessions used for business purposes. Also includes revenue from concessions, income from vending machine operations, commissions (including pay stations) and interest earned.

Restaurant

Cost (Food)—Cost of food sold, after deduction of the cost of employees' meals.

Cost (Beverage)—Cost of beverages sold, after deduction of the cost of employees' beverages.

Payroll—Stewards, chefs, cooks, waitress and busboys, dishwashers, butchers, vegetable cleaners, bakers, pantry help, etc.; wine stewards and bartenders; stock clerks, storekeepers, cost clerks, checkers and cashiers.

Income, Departmental—Total restaurant sales and other restaurant income less total cost of food and beverages consumed, payroll and related expenses and other direct restaurant expenses.

Sales, Total Restaurant (Food and Beverage)—Gross sales of food and beverages less allowances. Cover charges and other miscellaneous restaurant income are not included.

Management Fees

Fees charged by a management organization for management service or supervision should be charged to this account.

Income Before Fixed Charges

For purposes of this study, income before fixed charges is defined as total departmental revenue from all sources (rooms, telephone, food and beverage department income, minor operated departments income, store rentals and other income) less all departmental and undistributed operating expenses. This is the income from all operations before deducting rent, property taxes, property insurance, interest, depreciation and income taxes.

Further explanation may be found in *Uniform System of Accounts for Hotels.*

ANALYZE YOUR OPERATION

Periodic analysis of the financial performance of your lodging establishment may provide early earning signs of potential problems. Examination on a regular basis could reveal undesirable trends and provide the opportunity for corrective action. The worksheet on the next page is designed to provide a quick analysis of key items to reveal problem areas.

Follow these simple instructions for completing the worksheet:

1. Enter your figures in the first column.

2. Select the appropriate medians for comparison from the tables or text.

3. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Worksheet

Amount Per Available Room	Your Figures	Medians From *California Lodging Industry* Report		
Sales Rooms	$			
Food	$			
Beverage	$			
Other Departments	$			
Total	$			
Payroll and Related Expenses	$			
Undistributed Expenses (Excluding Payroll) Administrative & General	$			
Marketing	$			
Energy Costs	$			
Property Operation & Maintenance	$			
Income Before Management Fees & Fixed Charges	$			
Management Fees	$			
Income Before Fixed Charges	$			
Fixed Charges	$			
Rent	$			
Property Taxes	$			
Insurance	$			
Interest	$			
Depreciation	$			
Total	$			
Net Income Before Income Tax	$			

Supplemental Operating Information

General Statistics				
Occupancy	%	%	%	%
Double Occupancy	%	%	%	%
Average Rate Per Occupied Room	$	$	$	$
Income Before Fixed Charges				
Ratio to				
Room Sales	%	%	%	%
Total Sales	%	%	%	%
Cost of Food Sales (After Credit For Employee Meals)	%	%	%	%
Cost of Beverage Sales	%	%	%	%
Balance Sheet Ratios				
Current Position	times	times	times	times
Accounts Receivable — Ratio to Total Sales	%	%	%	%
Inventory Turnover Food	times	times	times	times
Beverage	times	times	times	times

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